MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2020/2021

BEC1614 –MICROECONOMICS

(All sections / Groups)

24th OCTOBER 2020
9am to 12pm
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 4 pages excluding the cover page with 4 questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided

QUESTION 1

(a) The city council of Melaka, Hang Tuah Jaya decides to regulate rents in order to reduce student living expenses in Bukit Beruang area and Ayer Keroh area. Suppose the average annual market-clearing rent for a two-bedroom apartment was RM700 per month and that rents were expected to increase to RM900 within a year. So the city council limits rents to their current RM700-per-month level.

i. Draw a supply and demand graph to illustrate the effect on the rental price of an apartment after the imposition of rent controls. (6 marks)

ii. Do you think the above policy will benefit the students? Evaluate. (4 marks)

(b) How a price ceiling should be set in order to create an effect to the market? Appraise. (10 marks)

(c) According to the news article, the prices of airline tickets in Malaysia had dropped 30 percent on last month. At the same time Malaysia Airlines also reduced the number of planes that had in service. Use a demand and supply graph to explain how the supply of airline seats available at every price has declined at the same time that the equilibrium price fell. (5 marks)

(Total: 25 marks)

QUESTION 2

(a) The Home Care Corporation determines that at current prices, the demand for its laundry dryer machine has a price elasticity of -2 in the short run, while the price elasticity for its washing machine is -1. If the corporation decides to raise the price of both products by 10 percent, what will happen to its sales and sales revenue of the two products?

i. Laundry dryer machine. (6 marks)

ii. Washing machine. (4 marks)

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Table 1

(b)

Peanuts		**Cashew nuts**	
Quantity (kg)	**Marginal utility**	**Quantity (bags)**	**Marginal utility**
1	300	1	400
2	240	2	340
3	180	3	240
4	120	4	160
5	60	5	80
6	0	6	0

Assume that Jasper's nut budget is RM100; refer to Table 1 to answer the following questions:

i. If peanuts cost RM10 per kg and cashew nuts cost RM20 per bag, identify Jasper's marginal utility per ringgit for all quantities of both goods. (4 marks)

ii. Demonstrate the utility maximizing combination of peanuts and cashew nuts for Jasper. (4 marks)

iii. If the price of peanuts increases to RM20 per kg, how does Jaspers' marginal utility per ringgit for peanuts change? State Jasper's new utility maximizing combination for peanuts and cashew nut.Using algebraic statement, prove that the utility – maximizing rule is fulfilled. (7 marks)

(Total: 25 marks)

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QUESTION 3

(a) Millions of "apps" have been created for smartphones and tablets. Most of these apps are the work of individuals in intense competition with each other. No single app writer can influence the price of an app, but each can and must decide how much to work and how many apps to produce.

Examine how a firm (an app's creator) maximizes profit in a perfect competition market. (10 marks)

(b) The process of new firms entering a profitable market and driving down prices and profits is not unique to coffee manufacturers. Consumers are spoilt with many choices of coffee brands ranging from Nescafe, Old Town White Coffee, Ah Huat White Coffee, Chek Up, Aik Cheong, and many others on the supermarket shelves.

Compare the efficiency of monopolistic competition and perfect competition. (15 marks)

(Total: 25 marks)

QUESTION 4

(a) Complete the following table for iRobot Roomba Vacuum Cleaning Robot:

Table 2

Number of workers (L)	Output of vacuum cleaning robot per week (Q)	Marginal Product of Labour (sets of vacuum cleaning robot per week) (MP)	Product Price (P)	Marginal Revenue Product of Labour (dollars per week)	Wage (dollars per week) (W)	Additional Profit from hiring one more worker (dollars per week)
0	0	-	$800	-	$2400	-
1	7		$800		$2400	
2	13		$800		$2400	
3	18		$800		$2400	
4	22		$800		$2400	
5	25		$800		$2400	
6	27		$800		$2400	

(6 marks)

Continued…

i. Using the information in the table 2, discuss whether the firm is a price taker or a price maker? (3 marks)

ii. Refer to the table 2; draw a graph that shows the demand for labour by this firm. Please indicate the profit-maximizing quantity of labour on the graph. (4 marks)

(b) Identify any three important factors that shift the market demand curve for labour. (6 marks)

(c)

Hotel industry has laid off 6% employees, more taking unpaid leave

PETALING JAYA: The local hotel industry has already laid off 6% of its employees, with a growing number of its staff taking unpaid leave and pay cuts as the sector crumbles from the impact of the Covid-19 pandemic.

According to the Malaysian Association of Hotels (MAH), based on a sampling size of 41,000 employees, 20% of were already given pay-cuts, while another 26% are on unpaid leave.

The highest number of lay-offs were in Melaka (15%), Johor (12%), Perak (12%) and Negri Sembilan (11%). Kedah, Perlis, Pahang and Kelantan have yet to report any lay-offs.

Source: The Star, 29 April 2020

i. Examine how the job cuts and factory closing will change the hotel industry's short-run average cost curves and marginal cost curve. (3 marks)

ii. In the short-run, there is a direct relationship between marginal cost and marginal product (under the assumption that the additional input is purchased at a fixed price). Explain this relationship between marginal cost and marginal product. (3 marks)

(Total: 25 marks)

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